



INTERNAL AUDIT SPECIAL INVESTIGATION CIVIC CENTER HOUSEKEEPING

December 15, 2003

Roanoke City Council Audit Committee Members
Roanoke, Virginia

We have completed an investigation regarding the use of contracted labor services for the housekeeping function in the Civic Center. Our investigation was conducted in accordance with lawful fraud examination techniques and generally accepted government auditing standards.

BACKGROUND

In September 2002, the Civic Center transitioned from using Event Personnel Incorporated as a provider of housekeeping staff to hiring its own housekeeping staff as part-time temporary employees. These part-time positions are paid a regular rate of \$7.00 per hour with no benefits and the number of hours worked is on an as-needed basis. Housekeeping staff perform both routine, regular cleaning of the offices and common areas as well as cleaning the coliseum, auditorium, exhibit hall, and stadium during and after events.

The Civic Center uses a computer-based time and attendance system (Qquest) and sign-in sheets to document time worked by part-time employees. Department supervisors consider the sign-in sheets to be the official record of time worked and adjust the time reported in the Qquest system to agree to the sign-in sheets. Once the department supervisors certify the time worked, the Civic Center Accountant electronically transmits the Qquest time and attendance data over to the City's payroll system.

The Civic Center supplements its part-time staff with unskilled laborers provided in most cases by Labor Ready Mid-Atlantic Incorporated. Department supervisors typically contact Labor Ready with their requests for laborers the day before an event. Labor Ready prints a work ticket listing the laborers provided and the time and date of the work. The work ticket is the control document that the laborer must get signed by the Civic Center supervisor to receive pay from Labor Ready. It is also the document Labor Ready uses to support its invoices billed to the Civic Center. Labor Ready typically charges the Civic Center \$8.50 an hour for unskilled labor. The Civic Center paid just over \$57,000 to Labor Ready Mid-Atlantic, Inc. in fiscal year 2003.

In April of 2003, the Auditing department was contacted by a person who alleged Civic Center employees were being paid as both employees on the city payroll and as

contract laborers. This person also alleged that the Civic Center was paying for labor not provided as a result of specific supervisors and employees falsifying work tickets. Based on the serious nature of the allegations, we immediately undertook an investigation.

PURPOSE

The purpose of this audit was to investigate allegations of inappropriate and fraudulent expenditures related to part-time and contract labor in the Civic Center's housekeeping department.

SCOPE

Our audit encompassed payroll time and attendance records and contract labor expenditures from September 1, 2002 through May 31, 2003. The audit included reviewing certain controls over labor usage whether provided through a service or by employees.

METHODOLOGY

We initially downloaded certain expenditure data from the City's accounting system to enable us to identify the possible dollars involved. We then notified Civic Center management of the allegations and confiscated all expenditure records and payroll related documents kept on site at the Civic Center. After identifying the relevant records, we input the data from those records into spreadsheets to allow us to analyze the hours worked versus paid. We interviewed a number of current and former Civic Center employees in housekeeping and accounting regarding specific dates and hours worked, as well as about procedures followed to account for time worked. We also spoke with the employees from the local Labor Ready office regarding their procedures for processing requests for laborers, paying laborers, and billing services. We consulted the City's Human Resources department, the City Attorney's Office, the Commonwealth Attorney's Office, and the Roanoke City Police department as we progressed through the audit.

RESULTS

We identified two supervisors who were authorizing select employees in housekeeping to submit time worked as contract laborers. Upon further investigation, we identified 90 specific cases in which the contract labor hours certified by the supervisors as having been worked by the employees were not supported by the time and attendance records. We identified another eight (8) cases in which hours documented as worked by employees were paid through the city payroll and also billed as if the work was provided through the temporary employee service. We were able to identify \$5,581.50 of unsupported charges for labor services. Additionally, we found that nearly 1 in 4 payroll time transactions were not supported by a sign-in sheet or other document signed by the employee certifying his or her time worked. We also noted eight (8) instances when an overtime rate was paid for what should have been regular hours, resulting in \$181.45 in overpayments. Based on the testimony we received, the suspect supervisors would solicit part-time employees to be set-up as contract laborers from Labor Ready. The

supervisors would then request those specific workers from Labor Ready for event labor. The supervisors would then certify that labor was provided as recorded on the work tickets. The employees would then take the work tickets to Labor Ready from whom they would receive a paycheck immediately based on the certified work tickets. The supervisors would then take a portion or, in some cases, all of the money received from Labor Ready. If the supervisors took the entire amount, they would adjust the employee's hours worked on the payroll to provide additional pay for hours not worked.

We identified a number of control weaknesses that contributed to the Civic Center paying for work not provided:

- Supervisors over the housekeeping staff had the authority to set staffing levels for events, request laborers from Labor Ready, certify Labor Ready work tickets, edit and approve time and attendance data for part-time employees, and evaluate employee performance.
- No one reviewed housekeeping expenditures for reasonableness on an event-by-event basis and there were no procedures in place that attempted to budget or track housekeeping expenses by event.
- Procedures for documenting time worked were not well-defined, documented, and enforced.
- The Qquest time and attendance system was acquired without properly defining system requirements. The system was implemented without developing an adequate project plan. As a result, system control features were not utilized to ensure data was accurately entered, edited, processed, archived, and validated. The access authority established for supervisors allowed them to edit the "hours worked" data for part-time employees. The system does not archive original time and attendance data or the edit history of the data. No procedures were in place to ensure only properly supported edits were entered.

Actions to Date:

On May 8, 2003, the Auditing department contacted Roanoke City Police regarding the allegations at the Civic Center and results of audit analysis to date. We requested and received Police assistance at this point. We asked that the supervisors in question be left in place and uninformed about the investigation while we interviewed employees and Labor Ready to develop additional information.

On May 21, 2003, the Acting Director of Civic Facilities placed the supervisors in question on administrative leave after Auditors completed interviews with the supervisors.

On May 22, 2003, the Auditing department notified all City Council members that an audit investigation was being conducted at the Civic Center and that preliminary findings had warranted placing the employees under investigation on administrative leave.

On June 4, 2003, the Auditing department notified the Director of Civic Facilities and the Director of Human Resources that approximately \$5,000 had been paid by the Civic Center for labor that was not provided, but which was certified by the supervisors. The Director of Civic Facilities began the process for terminating the supervisors involved.

On June 4, 2003, the Auditing department provided copies of all audit test work to the Roanoke City Police department and the Commonwealth Attorney's Office.

On June 25, 2003, the Auditing department was notified by the Director of Civic Facilities that the supervisors on administrative leave had not responded to their termination notices and that their terminations were now final.

On June 25, 2003, the Commonwealth's Attorney committed to prosecuting the case and the Police moved ahead with finalizing their investigation. The case went before the grand jury in October.

Recommendations:

We reviewed the results of our audit with the Civic Center Administration and agreed that the following initiatives would enhance controls related to part-time, temporary and contract labor in housekeeping, operations and maintenance.

- Re-evaluate the Qquest time and attendance system to determine its capabilities and identify functionality that can reduce the risk of inaccurate or false time and attendance data. Control features to tailor access as needed and to log edit activity should be thoroughly researched. Procedures for using the time and attendance system should be documented, communicated to all Civic Center staff, and consistently applied.
- Develop comprehensive written policies and procedures that address utilization and management of contracted, temporary, and part-time labor. Policies should comply with the City's administrative policies, personnel operating procedures, and any applicable State and Federal laws and regulations. Procedures should identify reasonable controls to manage part-time, temporary, and contract labor. Areas of focus should include:
 - Budgeting labor by event based on logical justification; follow up on budget-to-actual variances.
 - Segregating duties to ensure one person doesn't control all aspects of a process such as budgeting, approving, contracting for, and supervising contract laborers.
 - Establishing audit trails by requiring staff to consistently document the event worked, times, dates, approvals, etc., on supporting documents. All part-time and temporary staff should certify their time worked by signing a time sheet or sign-in/ sign-out sheet.

- Incorporating control procedures into responsibilities of managers and supervisors. This would include activities such as reviewing budget-to-actual reports, or exception reports that identify anomalies such as an employee working more than 24 hours in one day.

Management Response: (See Attached Memorandum)

CONCLUSION

Based on the results of our audit work, we conclude that the overall design of the system of internal controls should be strengthened to provide greater assurance that labor is used effectively and efficiently, and that services billed were received.

We want to thank management and staff at the Civic Center, the City Manager's Office, the Department of Human Resources, the Roanoke City Police, the City Attorney's Office, and the Commonwealth Attorney's Office for their cooperation and assistance during this audit.

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